

## House File 427 - Introduced

HOUSE FILE 427

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BENNETT

### A BILL FOR

1 An Act relating to small farm operations involved in the  
2 production of certain commodities that are unprocessed or  
3 processed, and used as food on a local or regional basis,  
4 including by establishing programs to support production  
5 and marketing, providing a preference for government  
6 entities when purchasing food, providing a tax credit and  
7 appropriation, providing a property tax exemption, and  
8 including applicability date provisions.  
9 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

SMALL FARM OPERATION PROGRAMS

Section 1. NEW SECTION. 15E.371 **Purpose.**

The purposes of this division are to encourage and promote the production and purchase of dedicated commodities and dedicated products derived locally or regionally from livestock, milk, or specialty crops produced on small farm operations in order to improve nutrition for the citizens of Iowa, and to strengthen local and regional farm economies.

Sec. 2. NEW SECTION. 15E.372 **Definitions.**

As used in this division, unless the context otherwise requires:

1. "*Commodity*" means any of the following:

a. Livestock as defined in section 717.1.

b. Milk or other dairy product regulated under chapter 192.

c. A specialty crop which includes horticulture and nursery crops, fruits, tree nuts, and vegetables.

2. "*Dedicated commodity*" means a commodity produced at a small farm operation for use as food for human consumption.

3. "*Dedicated product*" means a commodity produced at a small farm operation that is processed into a product for human consumption.

4. "*Small farm operation*" means agricultural land as defined in section 9H.1, located in this state, consisting of a total number of acres that does not exceed thirty percent of the median farm size in the state as determined by the authority.

5. "*Small farm operator*" means a person who is the owner or lessee of a small farm operation.

Sec. 3. NEW SECTION. 15E.373 **General authority.**

1. The authority shall administer this division and adopt all rules necessary to carry out the purposes of this division as provided in section 15E.371.

2. The authority shall cooperate with the Iowa finance authority and the department of agriculture and land stewardship in administering this division.

1     3. The authority may employ or contract with a consultant or  
2 specialist to assist in developing and implementing a plan to  
3 implement this division.

4     Sec. 4. NEW SECTION. 15E.374 **Qualifications.**

5     In order to qualify to participate in a program under  
6 this division, a person shall meet all of the requirements  
7 established by the authority which shall include at least all  
8 of the following:

9     1. Be a small farm operator. The small farm operator may  
10 be an individual, a partnership under chapter 486A, a family  
11 farm corporation as defined in section 9H.1, or a family farm  
12 limited liability company as defined in section 9H.1.

13    2. Be actively engaged in the small farm operation by making  
14 management decisions and performing physical work relating to  
15 the production and marketing of a dedicated commodity produced  
16 on the small farm operation or a dedicated product derived  
17 from a commodity produced on the small farm operation. The  
18 person must be actively engaged on a regular, continuous, and  
19 substantial basis in a manner that is essential to the success  
20 of the small farm operation. If the person is a partnership,  
21 family farm corporation, or family farm limited liability  
22 company, at least one partner, shareholder, or member must be  
23 so actively engaged.

24    3. Be a resident of this state. If the person is a  
25 partnership, family farm corporation, or family farm limited  
26 liability company, each partner, shareholder, or member must be  
27 a resident of this state.

28    4. Have sufficient education, training, or experience  
29 in farming. If the person is a partnership, family farm  
30 corporation, or family farm limited liability company, each  
31 partner, shareholder, or member, who is not a minor, must have  
32 sufficient education, training, or experience in farming.

33    5. Have access to adequate working capital and production  
34 items.

35    6. Meet the low or moderate net worth requirements

1 applicable to a beginning farmer as defined in section 16.58.

2     Sec. 5. NEW SECTION. 15E.375 **Small farm operator financial**  
3 **assistance program.**

4     1. A small farm operator financial assistance program is  
5 created within the authority. The purpose of the program is to  
6 provide financial assistance to small farm operators for the  
7 purpose of improving or expanding an existing and viable small  
8 farm operation or for engaging in a cooperative processing or  
9 marketing venture among several small farm operators.

10    2. The authority may provide financial assistance in the  
11 form of an interest loan, low-interest loan, no-interest loan,  
12 forgivable loan, loan guarantee, grant, letter of credit,  
13 equity financing, principal buy-down, interest buy-down, or a  
14 combination of these forms.

15    3. The maximum amount of financial assistance for a small  
16 farm operator under the program is as follows:

17     a. For a small farm operator seeking to improve or expand an  
18 existing viable small farm operation, twenty-five percent of  
19 the amount of credit extended to the small farm operator by an  
20 eligible lender, as defined by the authority, up to a maximum  
21 of fifty thousand dollars.

22     b. For one or more small farm operators engaging in a  
23 cooperative processing or marketing venture, twenty-five  
24 percent of the amount of credit extended to the venture by an  
25 eligible lender, as defined by the authority, up to a maximum  
26 of two hundred fifty thousand dollars.

27    4. The authority shall not approve an application to  
28 refinance an existing loan.

29     Sec. 6. NEW SECTION. 15E.376 **Small farm operator processing**  
30 **and marketing program.**

31    1. A small farm operator processing and marketing program  
32 is created within the authority. The purposes of the program  
33 are to expand processing and promote new markets for dedicated  
34 commodities and dedicated products produced by small farm  
35 operators.

1     2. In carrying out the purposes of the program, the  
2 authority shall do all of the following:

3     a. Investigate the processing and marketing of dedicated  
4 commodities and dedicated products produced by small farm  
5 operators and recommend efficient and economical methods of  
6 processing and marketing.

7     b. Promote the sale, distribution, and merchandising of  
8 dedicated commodities and dedicated products produced by small  
9 farm operators.

10    c. Furnish information and assistance to the public  
11 concerning the marketing of dedicated commodities and dedicated  
12 products produced by small farm operators.

13    d. Gather and diffuse useful information concerning all  
14 phases of the marketing of dedicated commodities and dedicated  
15 products produced by small farm operators in cooperation  
16 with other public or private agencies. The authority shall  
17 cooperate with Iowa state university of science and technology  
18 to avoid any unnecessary duplication of efforts.

19    e. Ascertain sources of supply of dedicated commodities  
20 and dedicated products produced by small farm operators, and  
21 prepare and publish from time to time lists of names and  
22 addresses of small farm operators, processors, and marketers.

23    Sec. 7. NEW SECTION. 15E.377 **Small farm operations fund.**

24    1. A small farm operations fund is created in the state  
25 treasury as a revolving fund under the control of the  
26 authority. The fund shall consist of any moneys appropriated  
27 by the general assembly for deposit in the fund and any other  
28 moneys available to and obtained or accepted by the authority  
29 from the federal government or private sources for placement  
30 in the fund.

31    2. Moneys in the fund are appropriated exclusively to  
32 support the programs created in this division.

33    3. Notwithstanding section 12C.7, interest or earnings  
34 on moneys in the fund shall be credited to the fund.

35 Notwithstanding section 8.33, moneys credited to the fund that

1 remain unexpended or unobligated at the end of a fiscal year  
2 shall not revert to any other fund.

3     Sec. 8. NEW SECTION. 15E.378 **Certification.**

4     1. Upon application, the authority shall issue an annual  
5 certificate to a person eligible to participate in a program  
6 under this division verifying that the person is a qualified  
7 small farm operator, regardless of whether the person actually  
8 participates in a program.

9     2. A person may use a certificate issued to the person under  
10 this section as proof of eligibility for a benefit under other  
11 programs benefiting small farm operators, including all of the  
12 following:

13     a. The selling of dedicated commodities or dedicated  
14 products to the department of administrative services pursuant  
15 to section 8A.315, the commission for the blind pursuant  
16 to section 216B.3, the board of directors of a merged area  
17 pursuant to section 260C.19C, the board of regents pursuant to  
18 section 262.9, the state department of transportation pursuant  
19 to section 307.21, and the department of corrections pursuant  
20 to section 904.312.

21     b. The from small farm operation to school tax credit as  
22 provided in chapter 190B.

23     c. A property tax exemption as provided in section 427.1.

24     Sec. 9. CODE EDITOR DIRECTIVE. The Code editor shall  
25 organize the provisions of this division of this Act as a new  
26 division in chapter 15E.

27                                   DIVISION II

28                   PURCHASE BY GOVERNMENT ENTITIES

29     Sec. 10. Section 8A.315, Code 2015, is amended by adding the  
30 following new subsection:

31     NEW SUBSECTION. 9. When providing for the purchase of  
32 food, the department, whenever cost competitive, shall purchase  
33 dedicated commodities or dedicated products originating from  
34 commodities produced by persons certified as qualified small  
35 farm operators by the economic development authority pursuant

1 to section 15E.378.

2     Sec. 11. Section 216B.3, Code 2015, is amended by adding the  
3 following new subsection:

4     NEW SUBSECTION. 13A. When providing for the purchase of  
5 food, give a preference to purchasing dedicated commodities  
6 or dedicated products originating from commodities produced  
7 by persons certified as qualified small farm operators by the  
8 economic development authority pursuant to section 15E.378.

9     Sec. 12. Section 260C.19C, Code 2015, is amended to read as  
10 follows:

11     **260C.19C Purchase of ~~designated biobased~~ certain products.**

12     The board of directors providing services to a merged area  
13 shall give preference to purchasing ~~designated~~ all of the  
14 following:

15     1. Dedicated commodities or dedicated products originating  
16 from commodities produced by persons certified as qualified  
17 small farm operators by the economic development authority  
18 pursuant to section 15E.378.

19     2. Designated biobased products in the same manner as  
20 provided in section 8A.317.

21     Sec. 13. Section 262.9, Code 2015, is amended by adding the  
22 following new subsection:

23     NEW SUBSECTION. 6A. When providing for the purchase of  
24 food, give a preference to purchasing dedicated commodities  
25 or dedicated products originating from commodities produced  
26 by persons certified as qualified small farm operators by the  
27 economic development authority pursuant to section 15E.378.

28     Sec. 14. Section 307.21, Code 2015, is amended by adding the  
29 following new subsection:

30     NEW SUBSECTION. 6A. The administrator shall, when  
31 providing for the purchase of food, give a preference to  
32 purchasing dedicated commodities or dedicated products  
33 originating from commodities produced by persons certified as  
34 qualified small farm operators by the economic development  
35 authority pursuant to section 15E.378.

1     Sec. 15. Section 904.312, Code 2015, is amended by adding  
2 the following new subsection:

3     NEW SUBSECTION. 3. When providing for the purchase of food,  
4 the director shall give a preference to purchasing dedicated  
5 commodities or dedicated products originating from commodities  
6 produced by persons certified as qualified small farm operators  
7 by the economic development authority pursuant to section  
8 15E.378.

9

DIVISION III

10

IOWA STATE UNIVERSITY

11     Sec. 16. NEW SECTION. 266.31 **Small farm operations.**

12     1. The Iowa cooperative extension service in agriculture  
13 and home economics shall develop and publish materials and  
14 sponsor events on site or via the internet regarding best  
15 methods, practices, and strategies for use by small farm  
16 operators qualified to participate in programs created in  
17 chapter 15E, division XXVIII, in producing and marketing  
18 dedicated commodities or dedicated products originating from  
19 commodities.

20     2. The materials and events shall be developed in  
21 cooperation with small farm operators as defined in section  
22 15E.372.

23     3. The materials and events shall be made available or  
24 sponsored at cost.

25

DIVISION IV

26

TAX CREDIT

27     Sec. 17. Section 2.48, subsection 3, paragraph f, Code 2015,  
28 is amended to read as follows:

29     f. In 2017, ~~the~~:

30     (1) The from small farm operation to school tax credit under  
31 chapter 190B, subchapter II.

32     (2) The innovation fund investment tax credit available  
33 under section 15E.52.

34     Sec. 18. NEW SECTION. 190B.201 **Definitions.**

35     As used in this subchapter, unless the context otherwise



1 requires:

2 1. "*Dedicated commodity*" means the same as defined in  
3 section 15E.372.

4 2. "*Dedicated product*" means the same as defined in section  
5 15E.372.

6 3. "*Department*" means the department of revenue.

7 4. "*Small farm operation*" means the same as defined in  
8 section 15E.372.

9 5. "*Tax credit*" means the from small farm operation to  
10 school tax credit as established in this subchapter.

11 Sec. 19. NEW SECTION. 190B.202 **Administration — rules.**

12 1. This subchapter shall be administered by the department  
13 of revenue.

14 2. The department of revenue shall adopt all rules necessary  
15 to administer this subchapter.

16 3. The department of agriculture and land stewardship,  
17 the Iowa department of public health, and the department of  
18 education shall cooperate with the department of revenue in  
19 developing and administering this subchapter.

20 Sec. 20. NEW SECTION. 190B.203 **From small farm operation to**  
21 **school tax credit.**

22 A from small farm operation to school tax credit is allowed  
23 against the taxes imposed in chapter 422, divisions II and III,  
24 as provided in this subchapter.

25 Sec. 21. NEW SECTION. 190B.204 **From small farm operation to**  
26 **school tax credit — eligibility.**

27 In order to qualify for a from small farm operation to school  
28 tax credit, all of the following must apply:

29 1. The taxpayer must be a small farm operator qualified  
30 to participate in programs created in chapter 15E, division  
31 XXVIII.

32 2. The taxpayer must produce dedicated commodities or  
33 dedicated products originating from commodities on the  
34 taxpayer's small farm operation.

35 3. The taxpayer must transfer title to the dedicated

1 commodities or dedicated products originating from commodities  
2 to a school district or accredited nonpublic school in this  
3 state.

4 4. The dedicated commodities or dedicated products  
5 originating from commodities shall not be damaged or  
6 out-of-condition or declared to be unfit for human consumption  
7 by a federal, state, or local health official. The condition  
8 of the dedicated commodities or dedicated products originating  
9 from commodities must be at least the same as allowed for  
10 charitable contributions of food under section 170(e)(3)(C)  
11 of the Internal Revenue Code. However, the department may  
12 require that the dedicated commodities or dedicated products  
13 originating from commodities comply with higher quality  
14 standards.

15 5. The dedicated commodities or dedicated products  
16 originating from commodities must be used by the school  
17 district or school to supplement the diet of its students.

18 Sec. 22. NEW SECTION. 190B.205 From small farm operation  
19 to school tax credit — claims.

20 1. A certificate issued by the economic development  
21 authority under section 15E.378 must be attached to the  
22 taxpayer's tax return for the tax year for which the tax  
23 credit under this subchapter is claimed. The department of  
24 revenue must review and approve an application for a tax credit  
25 certificate as provided by rules adopted by the department of  
26 revenue.

27 2. The department of revenue may require that the taxpayer  
28 attach proof of the sale of dedicated commodities or dedicated  
29 products originating from commodities to the department  
30 supporting the tax credit claim in a form and manner prescribed  
31 by the department.

32 3. An individual may claim a from small farm operation to  
33 school tax credit of a general partnership, limited liability  
34 company, S corporation, or estate electing to have income  
35 taxed directly to the individual. The amount claimed by the

1 individual shall be based upon the pro rata share of the  
2 individual's earnings from the partnership, limited liability  
3 company, S corporation, or estate.

4     Sec. 23. NEW SECTION. 190B.206 From small farm operation to  
5 school tax credit — limits on claims.

6     A from small farm operation to school tax credit is subject  
7 to all of the following limitations:

8     1. The tax credit shall not exceed a qualifying amount for  
9 the tax year that the tax credit is claimed. The qualifying  
10 amount is the lesser of the following:

11     a. Fifty percent of the total purchase price paid by all  
12 school districts or schools to which the dedicated commodities  
13 or dedicated products originating from commodities were sold.

14     b. Ten thousand dollars.

15     2. A tax credit in excess of the taxpayer's liability for  
16 the tax year is not refundable but may be credited to the tax  
17 liability for the following five years or until depleted,  
18 whichever is earlier.

19     3. If a tax credit is allowed, the amount of the sale for  
20 which the tax credit is claimed shall not be deductible in  
21 determining taxable income for state tax purposes.

22     4. A tax credit shall not be carried back to a tax year  
23 prior to the tax year in which the taxpayer claims the tax  
24 credit.

25     Sec. 24. NEW SECTION. 190B.207 Tax credit certificates —  
26 availability.

27     1. The amount of tax credits that may be issued to support  
28 the from small farm operation to school tax credit shall not  
29 exceed five million dollars in the aggregate in any year.

30     2. The department of revenue shall issue tax credit  
31 certificates to support the from small farm operation to school  
32 tax credit on a first-come, first-served basis.

33     Sec. 25. NEW SECTION. 422.11K From small farm operation to  
34 school tax credit.

35     The taxes imposed under this division, less the credits

1 allowed under section 422.12, shall be reduced by a from  
2 small farm operation to school tax credit under chapter 190B,  
3 subchapter II.

4 Sec. 26. Section 422.33, Code 2015, is amended by adding the  
5 following new subsection:

6 NEW SUBSECTION. 22. The taxes imposed under this division  
7 shall be reduced by a from small farm operation to school tax  
8 credit under chapter 190B, subchapter II.

9 Sec. 27. CODIFICATION. The Code editor shall organize  
10 the provisions of this division of this Act enacting sections  
11 190B.201 through 190B.207 as a new subchapter in chapter 190B.

12 Sec. 28. APPLICABILITY. This division of this Act applies  
13 to tax years beginning on or after January 1, 2016.

14 DIVISION V

15 PROPERTY TAX EXEMPTION

16 Sec. 29. Section 427.1, Code 2015, is amended by adding the  
17 following new subsection:

18 NEW SUBSECTION. 25. *Small farm operation.* Land which  
19 is a small farm operation owned or leased by a small farm  
20 operator certified by the economic development authority  
21 pursuant to section 15E.378 as qualified to participate in  
22 programs under chapter 15E, division XXVIII. The economic  
23 development authority shall send a copy of the certificate  
24 to the appropriate assessor not later than February 1 of the  
25 assessment year for which the exemption is requested. The  
26 economic development authority may subsequently withdraw the  
27 certificate if the small farm operator no longer qualifies to  
28 participate in programs under chapter 15E, division XXVIII. In  
29 that case, the economic development authority shall provide the  
30 assessor with written notice of the decertification.

31 Sec. 30. APPLICABILITY. This division of this Act applies  
32 to assessment years beginning on or after January 1, 2016.

33 EXPLANATION

34 The inclusion of this explanation does not constitute agreement with  
35 the explanation's substance by the members of the general assembly.

1     GENERAL. This bill provides assistance to a person  
2 classified as a small farm operator who owns or leases not more  
3 than a total number of acres that does not exceed 30 percent  
4 of the median farm size in the state to produce a dedicated  
5 commodity which is a commodity produced at a small farm  
6 operation or a dedicated product that is a commodity produced  
7 at a small farm operation that is processed into a product fit  
8 for human consumption. In order to receive assistance, the  
9 small farm operator must comply with certain requirements.  
10 The person must be in business as an individual or an equity  
11 holder in an entity, including a general partnership, a family  
12 farm corporation, or a family farm limited liability company  
13 (Code chapter 9H). The individual or all equity holders in an  
14 entity must be actively engaged in the small farm operation,  
15 must be Iowa residents, must demonstrate sufficient education,  
16 training, or experience in farming, and will materially and  
17 substantially participate in the small farm operation. The  
18 small farm operation must have access to adequate working  
19 capital and production items, and meet low or moderate net  
20 worth requirements applicable to a beginning farmer under the  
21 beginning farmer loan program (Code chapter 16).

22     ASSISTANCE PROGRAMS. The bill creates two small farm  
23 operation assistance programs administered by the economic  
24 development authority (authority). The first is a small farm  
25 operator financial assistance program to provide financial  
26 assistance to small farm operators for the improvement or  
27 expansion of an existing farm operation or for engaging in  
28 a cooperative processing or marketing venture among several  
29 small farm operators. The assistance may be in the form  
30 of an interest loan, low-interest loan, no-interest loan,  
31 forgivable loan, loan guarantee, grant, letter of credit,  
32 equity financing, principal buy-down, or interest buy-down.  
33 The second is a small farm operator processing and marketing  
34 program to expand processing and promote new markets for  
35 dedicated commodities and dedicated products originating from

1 commodities produced by small farm operators. The bill also  
2 creates a small farm operations fund to support the programs.  
3 Finally, the bill requires the authority to certify that  
4 a small farm operator is eligible to participate in other  
5 programs created in the bill.

6 PREFERENCE REQUIRED BY STATE ENTITIES PURCHASING FOOD.  
7 The bill requires that certain governmental entities provide  
8 a preference to a certified small farm operator when the  
9 government entity purchases food. The entities include the  
10 department of administrative services, commission for the  
11 blind, merged area schools, board of regents institutions,  
12 the state department of transportation, and the department of  
13 corrections.

14 IOWA STATE UNIVERSITY. The bill requires that the Iowa  
15 cooperative extension service in agriculture and home economics  
16 at Iowa state university develop and publish materials and  
17 sponsor events to assist small farm operators in increasing  
18 profitability.

19 INCOME TAX CREDIT. The bill requires the department of  
20 revenue to establish a tax credit for certified small farm  
21 operators selling dedicated commodities or dedicated products  
22 originating from commodities to schools. The amount of the tax  
23 credit cannot exceed 50 percent of the purchase price paid by  
24 the school or \$10,000, whichever is less. The bill provides  
25 for a five-year carryover period. There is no carryback  
26 provision and the tax credit is nontransferable. The bill  
27 imposes a maximum limit of \$5 million that can be used to  
28 support the tax credit during any year. The tax credit applies  
29 to tax years beginning on and after January 1, 2016.

30 PROPERTY TAX EXEMPTION. The bill provides that land which  
31 is a small farm operation owned or leased by a certified small  
32 farm operator is exempt from property taxes. The authority  
33 must send a copy of the certificate to the appropriate county  
34 assessor. The authority may decertify the small farm operator  
35 and send that notice to the county assessor as well. The tax

1 exemption applies to assessment years beginning on or after  
2 January 1, 2016.